DIAMOND OFFSHORE DRILLING INC
Form 10-Q
August 03, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2015

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 1-13926

DIAMOND OFFSHORE DRILLING, INC.

(Exact name of registrant as specified in its charter)

Delaware	**76-0321760**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

15415 Katy Freeway

Houston, Texas

77094

(Address of principal executive offices)

(Zip Code)

(281) 492-5300

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

As of July 27, 2015	Common stock, $0.01 par value per share	137,158,706 shares

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DIAMOND OFFSHORE DRILLING, INC.

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QUARTER ENDED JUNE 30, 2015

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share data)

	June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 95,854	$ 233,623
Marketable securities	15,953	16,033
Accounts receivable, net of allowance for bad debts	516,008	463,862
Prepaid expenses and other current assets	194,615	185,541
Total current assets	822,430	899,059
Drilling and other property and equipment, net of accumulated depreciation	6,930,329	6,945,953
Other assets	122,883	176,277
Total assets	$ 7,875,642	$ 8,021,289
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 83,584	$ 138,444
Accrued liabilities	303,385	426,592
Taxes payable	21,759	41,648
Short-term borrowings	374,978	
Current portion of long-term debt	250,000	249,962
Total current liabilities	1,033,706	856,646
Long-term debt	1,994,648	1,994,526
Deferred tax liability	407,808	530,394
Other liabilities	181,710	188,160
Total liabilities	3,617,872	3,569,726
Commitments and contingencies (Note 11)		
Stockholders equity:		

Preferred stock (par value $0.01, 25,000,000 shares authorized, none issued and outstanding)		
Common stock (par value $0.01, 500,000,000 shares authorized; 143,978,877 shares issued and 137,158,706 shares outstanding at June 30, 2015; 143,960,260 shares issued and 137,147,899 shares outstanding at December 31, 2014)	1,440	1,440
Additional paid-in capital	1,996,964	1,993,898
Retained earnings	2,462,386	2,661,999
Accumulated other comprehensive gain (loss)	(615)	(3,605)
Treasury stock, at cost (6,820,171 and 6,812,361 shares of common stock at June 30, 2015 and December 31, 2014, respectively)	(202,405)	(202,169)
Total stockholders equity	4,257,770	4,451,563
Total liabilities and stockholders equity	$ 7,875,642	$ 8,021,289

The accompanying notes are an integral part of the consolidated financial statements.

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DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Revenues:				
Contract drilling	$ 617,442	$ 649,554	$ 1,217,019	$ 1,334,862
Revenues related to reimbursable expenses	16,590	42,690	37,069	66,806
Total revenues	634,032	692,244	1,254,088	1,401,668
Operating expenses:				
Contract drilling, excluding depreciation	342,869	395,376	693,527	765,166
Reimbursable expenses	16,336	42,290	36,428	65,956
Depreciation	123,329	108,906	260,628	215,917
General and administrative	16,548	20,478	34,000	43,305
Impairment of assets			358,528	
Restructuring and separation costs	993		7,161	
Gain on disposition of assets	(164)	(8,572)	(775)	(8,719)
Total operating expenses	499,911	558,478	1,389,497	1,081,625
Operating income (loss)	134,121	133,766	(135,409)	320,043
Other income (expense):				
Interest income	584	150	1,167	558
Interest expense, net of amounts capitalized	(25,468)	(18,523)	(49,450)	(36,678)
Foreign currency transaction gain (loss)	(3,473)	(2,971)	2,117	(4,149)
Other, net	264	181	485	508
Income (loss) before income tax (expense) benefit	106,028	112,603	(181,090)	280,282
Income tax (expense) benefit	(15,642)	(22,890)	15,767	(44,759)
Net income (loss)	$ 90,386	$ 89,713	$ (165,323)	$ 235,523
Earnings (loss) per share, Basic and Diluted	$ 0.66	$ 0.65	$ (1.21)	$ 1.71

Weighted-average shares outstanding:				
Shares of common stock	137,159	137,145	137,155	137,803
Dilutive potential shares of common stock	42	4		5
Total weighted-average shares outstanding	137,201	137,149	137,155	137,808
Cash dividends declared per share of common stock	$ 0.125	$ 0.875	$ 0.25	$ 1.75

The accompanying notes are an integral part of the consolidated financial statements.

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DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Net income (loss)	$ 90,386	$ 89,713	(165,323)	235,523
Other comprehensive gains (losses), net of tax:				
Derivative financial instruments:				
Unrealized holding gain (loss)	293	2,882	(1,534)	5,721
Reclassification adjustment for loss (gain) included in net income	1,230	(2,360)	4,817	(2,537)
Investments in marketable securities:				
Unrealized holding gain (loss)	1,830	1	(293)	39
Reclassification adjustment for gain included in net income		(18)		(26)
Total other comprehensive gain	3,353	505	2,990	3,197
Comprehensive income (loss)	$ 93,739	$ 90,218	(162,333)	238,720

The accompanying notes are an integral part of the consolidated financial statements.

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DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended June 30, 2015	2014
Operating activities:		
Net (loss) income	$ (165,323)	$ 235,523
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	260,628	215,917
Loss on impairment of assets	358,528	
Gain on disposition of assets	(775)	(8,719)
Loss (gain) on foreign currency forward exchange contracts	7,924	(5,007)
Deferred tax provision	(124,353)	6,523
Accretion of discounts on marketable securities	(235)	(225)
Stock-based compensation expense	2,186	2,421
Deferred income, net	(13,244)	55,432
Deferred expenses, net	(47,630)	(80,579)
Long-term employee remuneration programs	298	3,952
Other assets, noncurrent	867	(144)
Other liabilities, noncurrent	(990)	2,334
(Payments for) proceeds from settlement of foreign currency forward exchange contracts designated as accounting hedges	(7,924)	5,007
Bank deposits denominated in nonconvertible currencies	795	5,442
Other	1,123	1,119
Changes in operating assets and liabilities:		
Accounts receivable	(51,751)	(75,893)
Prepaid expenses and other current assets	6,404	(18,857)
Accounts payable and accrued liabilities	(90,883)	40,948
Taxes payable	65,199	(17,867)
Net cash provided by operating activities	200,844	367,327
Investing activities:		
Capital expenditures (including rig construction)	(686,111)	(817,375)
Proceeds from disposition of assets, net of disposal costs	7,652	16,477
Proceeds from sale and maturities of marketable securities	23	5,800,033
Purchases of marketable securities		(4,399,889)
Net cash provided by (used in) investing activities	(678,436)	599,246

Financing activities:		
Payment of dividends	(35,143)	(244,364)
Net proceeds from short-term borrowings	374,978	
Purchase of treasury stock		(87,756)
Other	(12)	(647)
Net cash provided by (used in) financing activities	339,823	(332,767)
Net change in cash and cash equivalents	(137,769)	633,806
Cash and cash equivalents, beginning of period	233,623	347,011
Cash and cash equivalents, end of period	$ 95,854	$ 980,817

The accompanying notes are an integral part of the consolidated financial statements.

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DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

The unaudited consolidated financial statements of Diamond Offshore Drilling, Inc. and subsidiaries, which we refer to as Diamond Offshore, we, us or our, should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 1-13926).

As of July 27, 2015, Loews Corporation owned 53.1 % of the outstanding shares of our common stock.

Interim Financial Information

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the U.S., or GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, pursuant to such rules and regulations, they do not include all disclosures required by GAAP for complete financial statements. The consolidated financial information has not been audited but, in the opinion of management, includes all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the consolidated balance sheets, statements of operations, statements of comprehensive income and statements of cash flows at the dates and for the periods indicated. Results of operations for interim periods are not necessarily indicative of results of operations for the respective full years.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimated.

Cash and Cash Equivalents

We consider short-term, highly liquid investments that have an original maturity of three months or less and deposits in money market mutual funds that are readily convertible into cash to be cash equivalents.

The effect of exchange rate changes on cash balances held in foreign currencies was not material for each of the three-month periods ended June 30, 2015 and 2014.

Marketable Securities

We classify our investments in marketable securities as available for sale and they are stated at fair value in our Consolidated Balance Sheets. Accordingly, any unrealized gains and losses, net of taxes, are reported in our Consolidated Balance Sheets in Accumulated other comprehensive gain (loss), or AOCGL, until realized. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity and such adjustments are included in our Consolidated Statements of Operations in Interest income. The sale and purchase of securities are recorded on the date of the trade. The cost of debt securities sold is based on the specific identification method. Realized gains or losses, as well as any declines in value that are judged to be other than temporary, are reported in our Consolidated Statements of Operations in Other income (expense) Other, net. See Note 6.

Derivative Financial Instruments

Our derivative financial instruments consist primarily of foreign currency forward exchange, or FOREX, contracts which we may designate as cash flow hedges. In accordance with GAAP, each derivative contract is stated in the balance sheet at its fair value with gains and losses reflected in the income statement except that, to the extent the derivative qualifies for and is designated as an accounting hedge, the gains and losses are reflected in income in the same period as offsetting gains and losses on the qualifying hedged positions. Designated hedges are expected to be highly effective, and therefore, adjustments to record the carrying value of the effective portion of our derivative financial instruments to their fair value are recorded as a component of AOCGL in our Consolidated Balance Sheets. The effective portion of the cash flow hedge will remain in AOCGL until it is reclassified into earnings in the period or periods during which the hedged transaction affects earnings or it is determined that the hedged transaction will not occur. We report such realized gains and losses as a component of Contract drilling, excluding depreciation expense in our Consolidated Statements of Operations to offset the impact of foreign currency fluctuations in our expenditures in local foreign currencies in the countries in which we operate. See Note 12.

Adjustments to record the carrying value of the ineffective portion of our derivative financial instruments to fair value and realized gains or losses upon settlement of derivative contracts not designated as cash flow hedges are reported as Foreign currency transaction gain (loss) in our Consolidated Statements of Operations. See Notes 7 and 8.

Drilling and Other Property and Equipment

We carry our drilling and other property and equipment at cost. Maintenance and routine repairs are charged to income currently while replacements and betterments, which upgrade or increase the functionality of our existing equipment and that significantly extend the useful life of an existing asset, are capitalized. Significant judgments, assumptions and estimates may be required in determining whether or not such replacements and betterments meet the criteria for capitalization and in determining useful lives and salvage values of such assets. Changes in these judgments, assumptions and estimates could produce results that differ from those reported. Historically, the amount of capital additions requiring significant judgments, assumptions or estimates has not been significant. During the six months ended June 30, 2015 and the year ended December 31, 2014, we capitalized $176.4 million and $546.0 million, respectively, in replacements and betterments of our drilling fleet, resulting from numerous projects ranging from $25,000 to $215 million per project.

Costs incurred for major rig upgrades and/or the construction of rigs are accumulated in construction work-in-progress, with no depreciation recorded on the additions, until the month the upgrade or newbuild is completed and the rig is ready for its intended use. Upon retirement or sale of a rig, the cost and related accumulated depreciation are removed from the respective accounts and any gains or losses are included in our results of operations as Gain on disposition of assets. Depreciation is recognized up to applicable salvage values by applying the straight-line method over the remaining estimated useful lives from the year the asset is placed in service. Drilling rigs and equipment are depreciated over their estimated useful lives ranging from three to 30 years.

Impairment of Long-Lived Assets

We evaluate our property and equipment for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable (such as, but not limited to, cold stacking a rig, the expectation of cold stacking a rig in the near term, a decision to retire or scrap a rig, or excess spending over budget on a newbuild, construction project or major rig upgrade). We utilize an undiscounted probability-weighted cash flow analysis in testing an asset for potential impairment. Our assumptions and estimates underlying this analysis include the following:

dayrate by rig;

utilization rate by rig if active, warm stacked or cold stacked (expressed as the actual percentage of time per year that the rig would be used at certain dayrates);

the per day operating cost for each rig if active, warm stacked or cold stacked;

the estimated annual cost for rig replacements and/or enhancement programs;

the estimated maintenance, inspection or other costs associated with a rig returning to work;

salvage value for each rig; and

estimated proceeds that may be received on disposition of each rig.

Based on these assumptions, we develop a matrix for each rig under evaluation using multiple utilization/dayrate scenarios, to each of which we have assigned a probability of occurrence. We arrive at a projected probability-weighted cash flow for each rig based on the respective matrix and compare such amount to the carrying value of the asset to assess recoverability.

The underlying assumptions and assigned probabilities of occurrence for utilization and dayrate scenarios are developed using a methodology that examines historical data for each rig, which considers the rig s age, rated water depth and other attributes and then assesses its future marketability in light of the current and projected market environment at the time of assessment. Other assumptions, such as operating, maintenance and inspection costs, are estimated using historical data adjusted for known developments and future events that are anticipated by management at the time of the assessment.

Management s assumptions are necessarily subjective and are an inherent part of our asset impairment evaluation, and the use of different assumptions could produce results that differ from those reported. Our methodology generally involves the use of significant unobservable inputs, representative of a Level 3 fair value measurement, which may include assumptions related to future dayrate revenue, costs and rig utilization, quotes from rig brokers, the long-term future performance of our rigs and future market conditions. Management s assumptions involve uncertainties about future demand for our services, dayrates, expenses and other future events, and management s expectations may not be indicative of future outcomes. Significant unanticipated changes to these assumptions could materially alter our analysis in testing an asset for potential impairment. For example, changes in market conditions that exist at the measurement date or that are projected by management could affect our key assumptions. Other events or circumstances that could affect our assumptions may include, but are not limited to, a further sustained decline in oil and gas prices, cancelations of our drilling contracts or contracts of our competitors, contract modifications, costs to comply with new governmental regulations, growth in the global oversupply of oil and geopolitical events, such as lifting sanctions on oil-producing nations. Should actual market conditions in the future vary significantly from market conditions used in our projections, our assessment of impairment would likely be different. See Note 2.

Capitalized Interest

We capitalize interest cost for qualifying construction and upgrade projects. See Note 9. A reconciliation of our total interest cost to Interest expense, net of amounts capitalized as reported in our Consolidated Statements of Operations is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Total interest cost, including amortization of debt issuance costs	$ 30,428	$ 33,526	$ 60,424	$ 67,893
Capitalized interest	(4,960)	(15,003)	(10,974)	(31,215)
Total interest expense as reported	$ 25,468	$ 18,523	$ 49,450	$ 36,678

Foreign Currency

Our functional currency is the U.S. dollar. Foreign currency transaction gains and losses are reported as Foreign currency transaction gain (loss) in our Consolidated Statements of Operations and include, when applicable, unrealized gains and losses to record the carrying value of our FOREX contracts not designated as accounting hedges, as well as realized gains and losses from the settlement of such contracts. For the three-month and six-month periods ended June 30, 2015, we recognized net foreign currency transaction gains (losses) of $(3.5) million and $2.1 million, respectively. For the three-month and six-month periods ended June 30, 2014, we recognized net foreign currency transaction (losses) of $(3.0) million and $(4.1) million, respectively. See Note 7.

Revenue Recognition

We recognize revenue from dayrate drilling contracts as services are performed. In connection with such drilling contracts, we may receive fees (on either a lump-sum or dayrate basis) for the mobilization of equipment. We earn these fees as services are performed over the initial term of the related drilling contracts. We defer mobilization fees received, as well as direct and incremental mobilization costs incurred, and amortize each on a straight-line basis, over the term of the related drilling contracts (which is the period we estimate to be benefited from the mobilization activity). Straight-line amortization of mobilization revenues and related costs over the term of the related drilling contracts (which generally range from two to 60 months) is consistent with the timing of net cash flows generated from the actual drilling services performed. Absent a contract, mobilization costs are recognized currently.

Some of our drilling contracts require downtime before the start of the contract to prepare the rig to meet customer requirements. At times, we may be compensated by the customer for such work (on either a lump-sum or dayrate basis). These fees are generally earned as services are performed over the initial term of the related drilling contracts. We defer contract preparation fees received as well as direct and incremental costs associated with the contract preparation activities and amortize each, on a straight-line basis, over the term of the related drilling contracts (which we estimate to be benefited from the contract preparation activity).

From time to time, we may receive fees from our customers for capital improvements to our rigs (either lump-sum or dayrate). We defer such fees received in Accrued liabilities and Other liabilities in our Consolidated Balance Sheets and recognize these fees into income on a straight-line basis over the period of the related drilling contract. We capitalize the costs of such capital improvements and depreciate them over the estimated useful life of the improvement.

We record reimbursements received for the purchase of supplies, equipment, personnel services and other services provided at the request of our customers in accordance with a contract or agreement, for the gross amount billed to the customer, as Revenues related to reimbursable expenses in our Consolidated Statements of Operations.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, or ASU 2014-09. The new standard supersedes the industry-specific standards that currently exist under GAAP and provides a framework to address revenue recognition issues comprehensively for all contracts with customers regardless of industry-specific or transaction-specific fact patterns. Under the new guidance, companies recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 also provides for additional disclosure requirements. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and may be adopted using a retrospective or modified retrospective approach. Early adoption is not permitted. We are currently evaluating the provisions of ASU 2014-09 and have not yet determined its impact on our financial position, results of operations or cash flows.

In July 2015, the FASB approved a one-year deferral of the effective date of ASU No. 2014-09. The FASB expects to issue a final ASU formally amending the effective date by the end of the third quarter of 2015.

2. Asset Impairments

In response to recently announced regulatory requirements in the U.S. Gulf of Mexico, as well as the continued deterioration of the market fundamentals in the oil and gas industry, including the dramatic decline in oil prices, significant cutbacks in customer capital spending plans and contract cancelations by customers, we evaluated most of our mid-water semisubmersible rigs, one drillship and five of our jack-up rigs for impairment during the first quarter of 2015. Using the undiscounted projected probability-weighted cash flow analysis described in Note 1, we determined that the carrying values of seven of our 12 mid-water semisubmersibles, as well as our older, 7,875-foot water depth rated drillship, which we refer to collectively as the Impaired Rigs, were impaired at March 31, 2015.

We determined the fair value of five of the Impaired Rigs using a market approach, which utilized the most recent contracted sales price for another of our previously impaired mid-water semisubmersible rigs. We determined the fair value of the three remaining rigs (which were under contract with a customer at that time) using an income approach, which utilized significant unobservable inputs, including assumptions related to estimated dayrate revenue, rig utilization and anticipated costs for the remainder of the current contract, as well as estimated proceeds that may be received on disposition of each rig. We consider each of these methodologies to be Level 3 fair value measurements due to the significant level of estimation involved and the lack of transparency as to the inputs used As a result of our valuations, we recognized an impairment loss aggregating $358.5 million for the six-month period ended June 30, 2015.

Of the Impaired Rigs, three semisubmersible rigs were sold for scrap in the second quarter of 2015 and another three rigs are currently cold stacked or are expected to be cold stacked in the near term. Two of the remaining Impaired Rigs are currently under contract and are expected to be cold stacked or sold for scrap at the end of their respective contracts. During the second quarter of

2015, we reviewed most of our mid-water semisubmersibles, which were not previously impaired, two ultra-deepwater semisubmersibles, one deepwater semisubmersible and five of our jack-up rigs for impairment. As of June 30, 2015, we determined that further impairment had not occurred. The aggregate fair value of the Impaired Rigs was $3.6 million at June 30, 2015 and is reported in Drilling and other property and equipment, net of accumulated depreciation in our Consolidated Balance Sheets. We did not record any impairment for the three-month periods ended June 30, 2015 and 2014 or the six-month period ended June 30, 2014. See Note 8 and Note 9.

Management s assumptions are necessarily subjective and are an inherent part of our asset impairment evaluation. The use of different assumptions could produce results that differ from those reported. The actual amount realized upon disposition of our drilling rigs may vary if, or when, such rigs are sold.

3. Supplemental Financial Information

Consolidated Balance Sheets Information

Accounts receivable, net of allowance for bad debts, consist of the following:

	June 30, 2015	December 31, 2014
	(In thousands)	
Trade receivables	$ 483,913	$ 437,017
Value added tax receivables	23,105	24,853
Amounts held in escrow	13,494	6,450
Related party receivables	297	339
Other	923	927
	521,732	469,586
Allowance for bad debts	(5,724)	(5,724)
Total	$ 516,008	$ 463,862

Prepaid expenses and other current assets consist of the following:

	June 30, 2015	December 31, 2014
	(In thousands)	
Rig spare parts and supplies	$ 50,798	$ 56,315
Deferred mobilization costs	77,569	53,206
Prepaid insurance	8,837	12,163
Deferred tax assets	15,612	15,612
Prepaid taxes	36,769	44,085
Other	5,030	4,160
Total	$ 194,615	$ 185,541

Accrued liabilities consist of the following:

	June 30, 2015	December 31, 2014
	(In thousands)	
Rig operating expenses	$ 88,654	$ 85,897
Payroll and benefits	86,280	131,664
Deferred revenue	58,539	63,209
Accrued capital project/upgrade costs	27,721	103,123
Interest payable	24,458	18,365
Personal injury and other claims	9,149	8,570
FOREX contracts	355	5,439
Other	8,229	10,325
Total	$ 303,385	$ 426,592

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Consolidated Statements of Cash Flows Information

Noncash investing activities excluded from the Consolidated Statements of Cash Flows and other supplemental cash flow information is as follows:

	Six Months Ended June 30,	
	2015	**2014**
	(In thousands)	
Accrued but unpaid capital expenditures at period end	$ 27,721	$ 73,643
Common stock withheld for payroll tax obligations [(1)]	236	
Cash interest payments[(2)]	51,531	63,560
Cash income taxes paid, net of (refunds):		
U.S. federal	(3,344)	
Foreign	46,181	44,589
State	150	149

(1) Represents the cost of 7,810 shares of common stock withheld to satisfy the payroll tax obligation incurred as a result of the vesting of restricted stock units in the first quarter of 2015. This cost is presented as a deduction from stockholders equity in Treasury stock in our Consolidated Balance Sheets at June 30, 2015.

(2) Interest payments, net of amounts capitalized, were $42.1 million and $33.3 million for the six months ended June 30, 2015 and 2014, respectively.

4. Stock-Based Compensation

In April 2015, we granted an aggregate of 311,145 restricted stock units, or RSUs, to employees under our Equity Incentive Compensation Plan, or Equity Plan, collectively referred to as the 2015 RSUs. RSUs are contractual rights to receive shares of our common stock in the future if the applicable vesting conditions are met. Our 2015 RSUs included both performance-vesting and time-vesting RSUs. Under the terms of the 2015 awards, the performance-vesting 2015 RSUs vest upon achievement of certain performance goals as set forth in the individual award agreements over the performance period from January 1, 2015 to December 31, 2017, and the shares of our common stock to be received upon the vesting of the performance-vesting RSUs will be delivered no later than March 15, 2018. 50% of the time-vesting 2015 RSUs will vest on April 1, 2017 and 50% will vest on April 1, 2018, conditioned upon continued employment through the applicable vesting date.

2015 RSUs awarded under the Equity Plan are summarized as follows:

Award Type	**Number of RSUs**	**Weighted Average Fair Value per RSU**
Performance-vesting (dividend entitled)	110,791	$ 26.69
Performance-vesting	56,162	$ 25.21
Time-vesting	144,192	$ 25.21

We recognized compensation expense of $0.7 million and $0.9 million for the three-month and six-month periods ended June 30, 2015, respectively, in connection with RSUs awarded under our Equity Plan. In connection with RSUs awarded in 2014, we recognized $0.2 million and $0.3 million in compensation expense for the three-month and six-month periods ended June 30, 2014, respectively.

During the six months ended June 30, 2015, under the Equity Plan we issued an aggregate of 91,250 stock appreciation rights to non-employee members of our board of directors and certain employees.

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5. Earnings Per Share

A reconciliation of the numerators and the denominators of our basic and diluted per-share computations follows:

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	(In thousands, except per share data)			
Net income (loss) basic and diluted numerator	$ 90,386	$ 89,713	$ (165,323)	$ 235,523
Weighted average shares basic (denominator):	137,159	137,145	137,155	137,803
Dilutive effect of stock-based awards	42	4		5
Weighted average shares including conversions diluted (denominator)	137,201	137,149	137,155	137,808
Earnings (loss) per share:				
Basic	$ 0.66	$ 0.65	$ (1.21)	$ 1.71
Diluted	$ 0.66	$ 0.65	$ (1.21)	$ 1.71

The following table sets forth the share effects of stock-based awards excluded from our computations of diluted earnings per share, or EPS, as the inclusion of such potentially dilutive shares would have been antidilutive for the periods presented:

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	(In thousands)			
Employee and director:				
Stock options	30	31	32	32
Stock appreciation rights	1,557	1,475	1,573	1,444
Restricted stock units	37		200	

6. Marketable Securities

We report our investments as current assets in our Consolidated Balance Sheets in Marketable securities, representing the investment of cash available for current operations. See Note 8.

Our investments in marketable securities are classified as available for sale and are summarized as follows:

June 30, 2015

	Amortized Cost	Unrealized Gain (Loss) (In thousands)	Market Value
Corporate bonds	$ 16,239	$ (396)	$ 15,843
Mortgage-backed securities	106	4	110
Total	$ 16,345	$ (392)	$ 15,953

	December 31, 2014		
	Amortized Cost	Unrealized Gain (Loss) (In thousands)	Market Value
Corporate bonds	$ 16,003	$ (104)	$ 15,899
Mortgage-backed securities	130	4	134
Total	$ 16,133	$ (100)	$ 16,033

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Proceeds from maturities and sales of marketable securities and gross realized gains and losses are summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Proceeds from maturities	$	$ 3,625,000	$	$ 5,800,000
Proceeds from sales	12	12	23	33
Gross realized gains				
Gross realized losses				

7. Derivative Financial Instruments

Foreign Currency Forward Exchange Contracts

Our international operations expose us to foreign exchange risk associated with our costs payable in foreign currencies for employee compensation, foreign income tax payments and purchases from foreign suppliers. We may utilize FOREX contracts to manage our foreign exchange risk. Our FOREX contracts generally require us to net settle the spread between the contracted foreign currency exchange rate and the spot rate on the contract settlement date, which, for most of our contracts, is the average spot rate for the contract period.

We enter into FOREX contracts when we believe market conditions are favorable to purchase contracts for future settlement with the expectation that such contracts, when settled, will reduce our exposure to foreign currency gains and losses on future foreign currency expenditures. The amount and duration of such contracts are based on our monthly forecast of expenditures in the significant currencies in which we do business and for which there is a financial market. Historically we have entered into FOREX contracts for future delivery of Australian dollars, Brazilian reais, British pounds sterling, Mexican pesos and Norwegian kroner. These forward contracts are derivatives as defined by GAAP.

During the six months ended June 30, 2015 and 2014, we settled FOREX contracts with aggregate notional values of approximately $88.8 million and $153.5 million, respectively, of which the entire aggregate amounts were designated as a cash flow accounting hedge.

The following table presents the aggregate amount of gain or loss recognized in our Consolidated Statements of Operations related to our FOREX contracts designated as accounting hedges for the three-month and six-month periods ended June 30, 2015 and 2014.

	Three Months Ended June 30,		Six Months Ended June 30,	
Location of (Loss) Gain Recognized in Income	2015	2014	2015	2014
	(In thousands)			
Contract drilling expense	$ (1,534)	$ 4,496	$ (7,924)	$ 5,007

As of June 30, 2015, we had Mexican peso FOREX contracts outstanding in the aggregate notional amount of $2.7 million, which settle monthly through September 2015. As of June 30, 2015, all outstanding derivative contracts had been designated as cash flow hedges. See Note 8.

We have International Swap Dealers Association, or ISDA, contracts, which are standardized master legal arrangements that establish key terms and conditions, which govern certain derivative transactions. At June 30, 2015, all of our FOREX contracts were with a single counterparty and were governed under such ISDA contracts. There are no requirements to post collateral under these contracts; however, they do contain credit-risk related contingent provisions including credit support provisions and the net settlement of amounts owed in the event of early terminations. Additionally, should our credit rating fall below a specified rating immediately following the merger of Diamond Offshore with another entity, the counterparty may require all outstanding derivatives under the ISDA contract to be settled immediately at current market value. Our ISDA arrangements also include master netting agreements to further manage counterparty credit risk associated with our FOREX contracts. We have elected not to offset the fair value amounts recorded for our FOREX contracts under these agreements in our Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014; however, there would have been no significant difference in our Consolidated Balance Sheets if the estimated fair values were presented on a net basis for these periods.

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The following table presents the fair values of our derivative FOREX contracts designated as hedging instruments at June 30, 2015 and December 31, 2014.

Balance Sheet Location	Fair Value June 30, 2015	Fair Value December 31, 2014	Balance Sheet Location	Fair Value June 30, 2015	Fair Value December 31, 2014
	(In thousands)			(In thousands)	
Prepaid expenses and other current assets	$	$	Accrued liabilities	$ (355)	$ (5,439)

The following table presents the amounts recognized in our Consolidated Balance Sheets and Consolidated Statements of Operations related to our derivative financial instruments designated as cash flow hedges for the three-month and six-month periods ended June 30, 2015 and 2014.

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	(In thousands)			
FOREX contracts:				
Amount of gain (loss) recognized in AOCGL on derivative (effective portion)	$ 451	$ 4,434	$ (2,359)	$ 8,802
Location of (loss) gain reclassified from AOCGL into income (effective portion)	Contract drilling expense	Contract drilling expense	Contract drilling expense	Contract drilling expense
Amount of (loss) gain reclassified from AOCGL into income (effective portion)	$ (1,894)	$ 3,630	$ (7,414)	$ 3,899
Location of loss recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	Foreign currency transaction gain (loss)	Foreign currency transaction gain (loss)	Foreign currency transaction gain (loss)	Foreign currency transaction gain (loss)
Amount of gain (loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	$ 8	$	$ (1)	$ (1)
Treasury lock agreements:				
Amount of gain recognized in AOCGL on derivative (effective portion)				
Location of gain reclassified from AOCGL into income (effective portion)	Interest Expense	Interest Expense	Interest Expense	Interest Expense
Amount of gain reclassified from AOCGL into income (effective	$ 2	$ 2	$ 4	$ 4

portion)

As of June 30, 2015, the estimated amount of net unrealized gains (losses) associated with our FOREX contracts and treasury lock agreements that will be reclassified to earnings during the next twelve months was $(0.4) million and $8,000, respectively. The net unrealized gains (losses) associated with these derivative financial instruments will be reclassified to contract drilling expense and interest expense, respectively. During the six-month periods ended June 30, 2015 and 2014, we did not reclassify any amounts from AOCGL due to the probability of an underlying forecasted transaction not occurring.

8. Financial Instruments and Fair Value Disclosures

Financial instruments that potentially subject us to significant concentrations of credit or market risk consist primarily of periodic temporary investments of excess cash, trade accounts receivable and investments in debt securities, including residential mortgage-backed securities. We generally place our excess cash investments in U.S. government-backed short-term money market instruments through several financial institutions. At times, such investments may be in excess of the insurable limit. We periodically evaluate the relative credit standing of these financial institutions as part of our investment strategy.

Most of our investments in debt securities are securitized corporate bonds whereby our credit risk is mitigated by the collateral. However, we are exposed to market risk due to price volatility associated with interest rate fluctuations.

Concentrations of credit risk with respect to our trade accounts receivable are limited primarily due to the entities comprising our customer base. Since the market for our services is the offshore oil and gas industry, this customer base consists primarily of major and independent oil and gas companies and government-owned oil companies. At June 30, 2015 and December 31, 2014, Petróleo Brasileiro S.A. (a Brazilian multinational energy company that is majority-owned by the Brazilian government), or Petrobras, accounted for $107.5 million and $123.3 million, or 22% and 29%, respectively, of our total consolidated net trade accounts receivable balance.

In general, before working for a customer with whom we have not had a prior business relationship and/or whose financial stability may be uncertain to us, we perform a credit review on that company. Based on that analysis, we may require that the customer present a letter of credit, prepay or provide other credit enhancements. We record a provision for bad debts on a case-by-case basis when facts and circumstances indicate that a customer receivable may not be collectible and, historically, losses on our trade receivables have been infrequent occurrences.

Fair Values

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy prescribed by GAAP requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1	Quoted prices for identical instruments in active markets. Level 1 assets include short-term investments such as money market funds, U.S. Treasury Bills and Treasury notes. Our Level 1 assets at June 30, 2015 consisted of cash held in money market funds of $65.6 million and time deposits of $20.3 million. Our Level 1 assets at December 31, 2014 consisted of cash held in money market funds of $197.5 million and time deposits of $20.3 million.
Level 2	Quoted market prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not